

**GREATER LAPEER COUNTY UTILITIES AUTHORITY
LAPEER COUNTY, MICHIGAN**

**FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2008**

GREATER LAPEER COUNTY UTILITIES AUTHORITY

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BROWN & KENT, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board Members
Greater Lapeer County Utilities Authority
Lapeer, MI 48446

We have audited the accompanying financial statements of the business type activity and each major fund of Greater Lapeer County Utilities Authority (the "Authority"), Lapeer, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activity and each major fund of Greater Lapeer County Utilities Authority, at June 30, 2008, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Brown & Kent, P.C.

Certified Public Accountants

October 28, 2008

BASIC FINANCIAL STATEMENTS

GREATER LAPEER COUNTY UTILITIES AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 886
Investments	61,545
Due from Other Governmental Units	
City of Lapeer	115,480
City of Imlay City	103,319
City of Almont	19,956
Total Due from Other Governmental Units	<u>238,755</u>

Total Current Assets	<u>301,186</u>
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TOTAL ASSETS	<u><u>\$ 301,186</u></u>
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LIABILITIES

Current Liabilities

Due to Other Governmental Units	
Due to City of Detroit - Water	\$ 237,696
Due to Township of Mayfield	1,059
Total Due to Other Governmental Units	<u>238,755</u>

Deposits

City of Lapeer	36,400
City of Imlay City	16,500
Total Deposits	<u>52,900</u>

Total Current Liabilities	<u>291,655</u>
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TOTAL LIABILITIES	291,655
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NET ASSETS

Unrestricted	<u>9,531</u>
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TOTAL NET ASSETS	<u>9,531</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 301,186</u></u>
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The accompanying notes are an integral part of the financial statements.

GREATER LAPEER COUNTY UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
JUNE 30, 2008

OPERATING REVENUES	
Intergovernmental - Local	\$ 1,282,014
TOTAL OPERATING REVENUES	<u>1,282,014</u>
OPERATING EXPENSES	
Water Purchased - City of Detroit	1,280,149
Legal and Professional Fees	4,128
Miscellaneous	235
Office Supplies and Expense	<u>46</u>
TOTAL OPERATING EXPENSES	<u>1,284,558</u>
NET OPERATING INCOME (LOSS)	(2,544)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	2,300
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>2,300</u>
CHANGE IN NET ASSETS	(244)
NET ASSETS - BEGINNING	<u>9,775</u>
NET ASSETS - ENDING	<u><u>\$ 9,531</u></u>

The accompanying notes are an integral part of the financial statements.

**GREATER LAPEER COUNTY UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2008**

CASH FLOWS PROVIDED (USED) OPERATING ACTIVITIES	
Intergovernmental Receipts	\$ 1,231,017
Payments to Suppliers	(1,229,152)
Payments to Others	<u>(4,409)</u>
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(2,544)</u>
CASH FLOWS PROVIDED (USED) INVESTING ACTIVITIES	
Net Withdrawn (Invested) in J-Fund	164
Interest Income	<u>2,300</u>
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	<u>2,464</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(80)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>966</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 886</u></u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (2,544)
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Due from Other Governmental Units (Increase) Decrease	50,997
Due to Other Governmental Units Increase (Decrease)	<u>(50,997)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (2,544)</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

**GREATER LAPEER COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Greater Lapeer County Utilities Authority (the “Authority”), Michigan, is a governmental entity created under the constitution and statutes of the State of Michigan. Located in Lapeer, the Authority was created to facilitate water services for municipalities in Lapeer County.

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of the Authority are described below.

A. REPORTING ENTITY

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Authority consists of all funds, departments, boards, and agencies that are not legally separate from the Authority. In accordance with the provision of GASB Statement 14, certain other governmental organizations are not considered to be a part of the Authority entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity’s financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements of the various governmental organizations participating in the Authority are not included in the financial statements of the Authority.

B. BASIS OF PRESENTATION

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Authority’s basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenditures and Changes in Fund Net Assets, and a Statement of Cash Flows, as required by GASB 34.

GASB 34 requires that Net Assets be classified into three components; 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. The components are defined as follows:

1. Invested in capital assets, net of related debt – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances, if any, of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted – This component consists of constraints placed on net assets used by external constraints imposed through creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted – This component consists of net assets that do not meet the definition of the other two components.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

GREATER LAPEER COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

The Authority accounts for its operations in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water usage. Operating expenses for the Authority include the cost of the water provided and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. BUDGETS AND BUDGETARY ACCOUNTING

The Authority Board follows these procedures in establishing their budget:

- (1) Prior to the beginning of the fiscal year, the Board proposes an operating budget for each budgetary fund. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. State statute requires that the budget be submitted in summary form. Also, more detailed line item budgets are included for administrative control.
- (2) The budgets are adopted by a majority vote of the Authority Board.
- (3) Formal budgetary integration is employed as a management control device during the year.
- (4) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Amendments to the budget are approved by the Authority Board, as necessary.

E. CASH EQUIVALENTS

The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. INVESTMENTS

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties

G. DUE FROM OTHER GOVERNMENTAL UNITS

Due from Other Governmental Units have been recognized for all significant amounts due to the Authority. Allowances for uncollectible accounts have not been provided because management does not consider collection doubtful, and feels that uncollected amounts would be immaterial.

GREATER LAPEER COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. NET ASSETS

Net assets represents the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Statement of Net Assets</u>
Cash and Cash Equivalents	
Demand Accounts	<u>\$ 886</u>
Total Cash and Cash Equivalents	886
Investments	
Comerica J-Fund	<u>61,545</u>
Total Investments	<u>61,545</u>
Total Cash and Investments	<u><u>\$ 62,431</u></u>

The bank balance of the primary government's deposits is \$62,431, of which \$886 is covered by federal depository insurance and \$-0- is collateralized with U.S. Treasury securities held by the pledging financial institution's trust department in the Authority's name.

GREATER LAPEER COUNTY UTILITIES AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

CREDIT RISK

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

At year end, the investments were reported in the basic financial statements in the following categories:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Comerica – J Fund	\$ 61,545	Not Rated	N/A

CUSTODIAL CREDIT RISK – BANK DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end \$-0- of the Authority's bank balance (demand, savings and certificates of deposit) of \$886 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CUSTODIAL CREDIT RISK – INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk.

INTEREST RATE RISK

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The Authority minimizes this risk by investing in liquid asset funds, money market mutual funds, shorter-term securities and similar investment pools and limiting the average maturity in accordance with the Authority's investment policy.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority minimizes this risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

FOREIGN CURRENCY RISK

The Authority is not authorized to invest in investments which have this type of risk.



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To the Board Members
Greater Lapeer County Utilities Authority
Lapeer, MI 48446

In planning and performing our audit of the financial statements of the business-type activities and each major fund of Greater Lapeer County Utilities Authority (the "Authority"), as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that we consider to be material weaknesses.

We consider the following deficiencies to be material weaknesses:

Lack of Segregation of Duties.

Requirement: Wherever possible there must be a segregation of duties between physical control of the assets and the recording of the transactions.

Condition: The Authority's Treasurer is solely responsible for all accounting activity, including bill receipting, invoicing, writing and signing checks and bank reconciliations.

Effect: The effect is that there is the risk of intentional or unintentional errors that could be made and not detected in a timely manner.

We consider the following deficiency to be a significant deficiency in internal control:

Lack of adequate controls to produce full-disclosure GAAP financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Authority, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

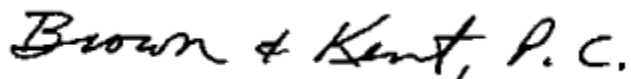
Effect: The result of this condition is that the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate that as required by professional standards.

This communication is intended solely for the information and use of management, the Board, and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the Board for the opportunity to serve as auditors for Greater Lapeer County Utilities Authority. Please contact us if you have any questions regarding these or any other matters.

Sincerely,

A handwritten signature in black ink that reads "Brown & Kent, P.C." in a cursive, flowing script.

Certified Public Accountants

October 28, 2008

October 28, 2008

To the Board Members
Greater Lapeer County Utilities Authority
Lapeer, MI 48446

We have audited the financial statements of the business-type activities and each major fund of Greater Lapeer County Utilities Authority for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Greater Lapeer County Utilities Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 28, 2008.

Management Consultations with Other Independent Accountants

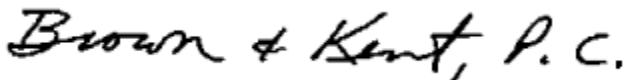
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board and management of Greater Lapeer County Utilities Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Brown & Kent, P.C." in a cursive, flowing script.

Certified Public Accountants